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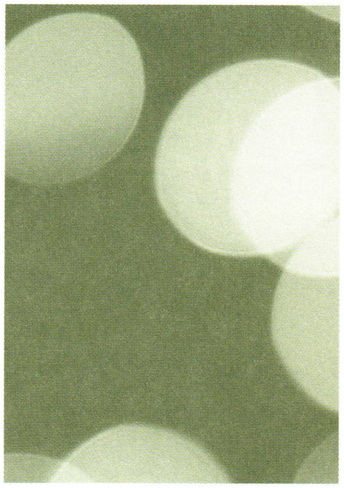
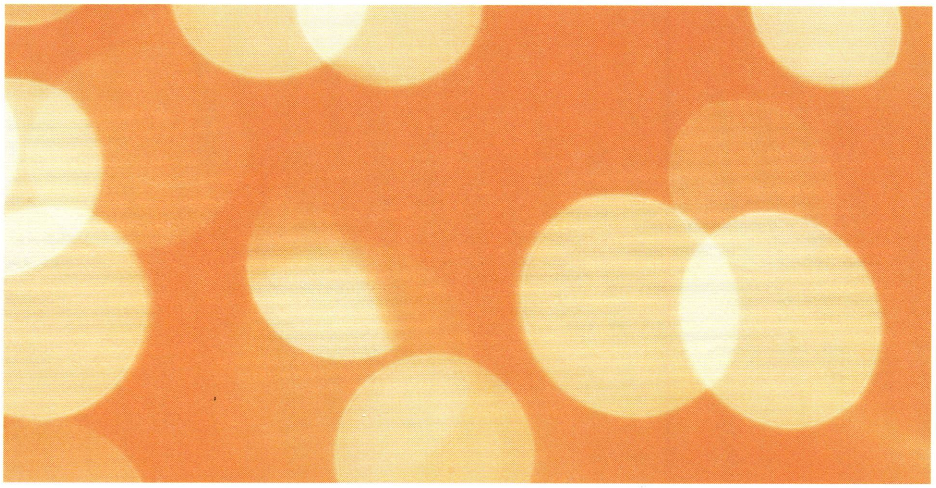
Checklist supplement and illustrative financial statements: real estate ventures : a financial accounting and reporting practice aid, September 2008

American Institute of Certified Public Accountants



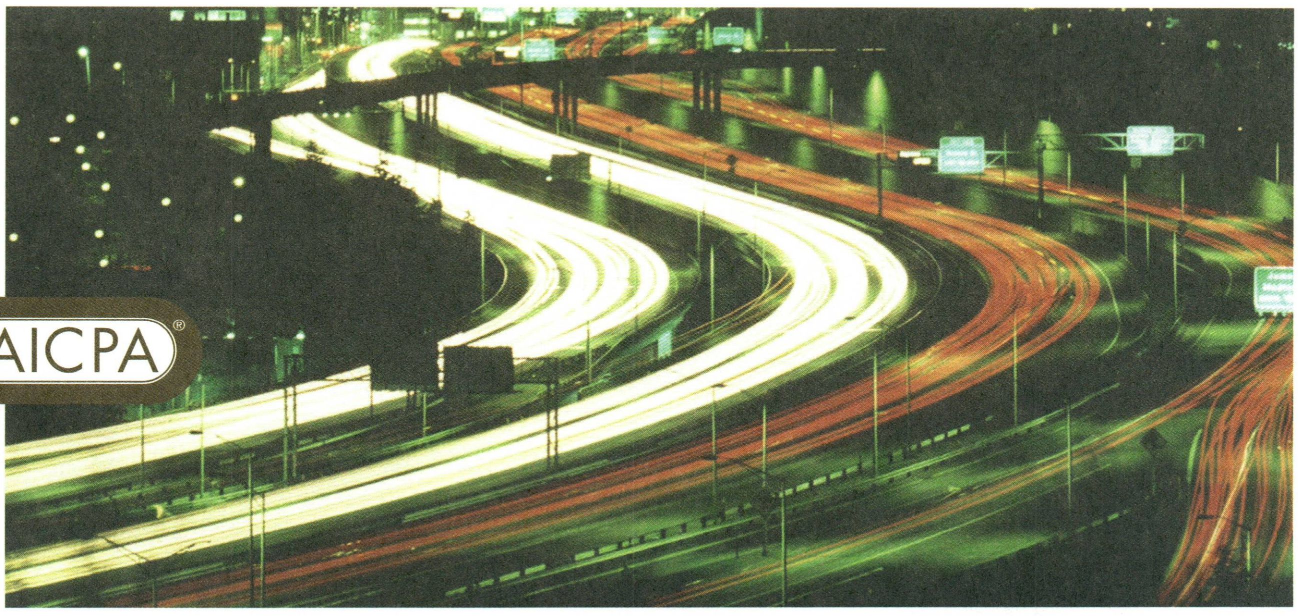


CHECKLIST SUPPLEMENT & ILLUSTRATIVE FINANCIAL STATEMENTS

Real Estate Ventures

To be used in conjunction with *Checklists and Illustrative Financial Statements for Corporations*

SEPTEMBER 2008



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FSP Section 19,000

Checklist Supplement and Illustrative Financial Statements for Real Estate Ventures

Description

.01 Real estate joint ventures are entities organized to accomplish a business purpose for the benefit of the members of the group. They are formed in a variety of legal ways. There are, for example, corporate joint ventures, partnerships (general or limited), undivided interests, and limited liability companies.

.02 Real estate joint ventures ordinarily are formed to accomplish various activities, such as to sell homes and homesites, to complete development of commercial or residential real estate, or to operate and maintain those facilities.

.03 An AICPA Issues Paper, "Joint Venture Accounting," dated July 17, 1979, describes certain characteristics common to joint ventures: The entities are "(1) owned, operated, and jointly controlled by a small group as a separate and specific business project; (2) operated for the mutual benefit of the ownership group; (3) frequently organized to share risks and rewards in developing a new market, product, or technology by pooling resources and facilities; (4) operated under arrangements by which each venturer may participate in overall management regardless of the percentage of ownership; (5) usually of limited duration; (6) usually operated as an extension of the business or investment of one or more of the venturers; and (7) owned by a small number of venturers." In addition to real estate activities, joint ventures are used for various purposes including to explore for oil and gas and construct and operate manufacturing facilities.

Accounting Literature

.04 Historically, the accounting literature has given little attention to the accounting by a joint venture. Most literature in this area deals with the accounting by the investor for an investment in a joint venture. For example, the following all deal primarily with the accounting and disclosure by an investor in a joint venture or investee:

- AICPA Issues Paper, "Joint Venture Accounting," issued July 17, 1979
- AICPA Issues Paper, "Accounting by Investors for Distributions Received in Excess of Their Investment in a Joint Venture" (an addendum to the AICPA Issues Paper, "Joint Venture Accounting"), issued October 8, 1979
- Statement of Position (SOP) 78-9, *Accounting for Investments in Real Estate Ventures* (AICPA, *Technical Practice Aids*, ACC sec. 10,240), (as amended by Financial Accounting Standards Board (FASB) Staff Position SOP 78-9-1, *Interaction of AICPA Statement of Position 78-9 and EITF Issue No. 04-5*)
- AICPA Accounting Principles Board 18, *The Equity Method of Accounting for Investments in Common Stock*

In December 2003, FASB issued FASB Interpretation No. (FIN) 46(R), *Consolidation of Variable Interest Entities*, which interprets Accounting Research Bulletin (ARB) 51, *Consolidated Financial Statements*, and addresses the consolidation of variable interest entities.

Financial Accounting and Reporting Standards

.05 Presented are certain accounting pronouncements which may be of interest to practitioners engaged in the real estate venture industry:

- FASB Statement of Financial Accounting Standards (SFAS) 13, *Accounting for Leases*
- SFAS 23, *Inception of the Lease—an amendment of FASB Statement No. 13*
- SFAS 66, *Accounting for Sales of Real Estate*
- SFAS 67, *Accounting for Costs and Initial Rental Operations of Real Estate Projects*
- SFAS 91, *Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases—an amendment of FASB Statements No. 13, 60, and 65 and a rescission of FASB Statement No. 17*
- SFAS 98, *Accounting for Leases: Sale-Leaseback Transactions Involving Real Estate, Sales-Type Leases of Real Estate, Definition of the Lease Term, and Initial Direct Costs of Direct Financing Leases—an amendment of FASB Statements No. 13, 66, and 91 and a rescission of FASB Statement No. 26 and Technical Bulletin No. 79-11*
- SFAS 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities—a replacement of FASB Statement No. 125*
- SFAS 152, *Accounting for Real Estate Time-Sharing Transactions—an amendment of FASB Statements No. 66 and 67*
- SFAS 153, *Exchanges of Nonmonetary Assets—an amendment of APB Opinion No. 29*
- SFAS 156, *Accounting for Servicing of Financial Assets—an amendment of FASB Statement No. 140*
- FIN 19, *Lessee Guarantee of the Residual Value of Leased Property—an interpretation of FASB Statement No. 13*
- FIN 21, *Accounting for Leases in a Business Combination—an interpretation of FASB Statement No. 13*
- FIN 23, *Leases of Certain Property Owned by a Government Unit or Authority—an interpretation of FASB Statement No. 13*
- FIN 24, *Leases Involving Only Part of a Building—an interpretation of FASB Statement No. 13*
- FIN 26, *Accounting for Purchase of a Leased Asset by the Lessee during the Term of the Lease—an interpretation of FASB Statement No. 13*
- FIN 27, *Accounting for a Loss on a Sublease—an interpretation of FASB Statement No. 13 and APB Opinion No. 30*
- FIN 43, *Real Estate Sales—an interpretation of FASB Statement No. 66*
- FIN 46(R), *Consolidation of Variable Interest Entities (revised December 2003)—an interpretation of ARB No. 51*
- SOP 78-9, *Accounting for Investments in Real Estate Ventures (AICPA, Technical Practice Aids*, ACC sec. 10,240)
- SOP 92-1, *Accounting for Real Estate Syndication Income* (AICPA, *Technical Practice Aids*, ACC sec. 10,500)

- SOP 04-2, *Accounting for Real Estate Time-Sharing Transactions* (AICPA, *Technical Practice Aids*, ACC sec. 10,910)

Illustrative Financial Statements

.06 The financial statements accompanying the disclosure checklist illustrate how a joint venture entity would report its financial condition, results of operations, and cash flows.

.07 Please note that the equity section of those joint venture financial statements presents separately the ownership interest of each venturer based on his equity interest in the joint venture. If the joint venture is a corporation, the equity section would show the equity interest of each corporation. If the joint venture is a partnership, the equity section would be entitled "Partner's Capital," and would list the equity interest of each partner and distinguish between class of partners.

Note: This publication was extracted from sections 19,000 through 19,300 of the AICPA *Financial Statement Preparation Manual* (FSP).

FSP Section 19,100
Instructions

General

.01 This publication includes:

- **Financial Statements and Notes Checklist (FSP section 19,200)**—For use by preparers and auditors of real estate joint venture financial statements.
- **Illustrative Financial Statements and Auditor's Reports (FSP section 19,300)**—Illustrating real estate joint venture financial statements.

.02 The checklist and illustrative financial statements have been developed by the AICPA Accounting and Auditing Publications staff as nonauthoritative practice aids for use by preparers and auditors of financial statements of real estate joint ventures. The checklist and illustrative financial statements should be used by, or under the supervision of, persons having adequate technical training and proficiency in the application of generally accepted accounting principles and generally accepted auditing standards, and other relevant technical guidance.

Relevant reporting and disclosure guidance contained in official pronouncements issued through September 30, 2008 has been considered in the development of this edition of the checklist. This includes relevant guidance issued up to and including the following:

- Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 163, *Accounting for Financial Guarantee Insurance Contracts—an interpretation of FASB Statement No. 60*
- Revised FASB Statements issued through September 30, 2008, including FASB Statement No. 141(R), *Business Combinations*
- FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109*
- FASB Technical Bulletin No. 01-1, *Effective Date for Certain Financial Institutions of Certain Provisions of Statement 140 Related to the Isolation of Transferred Financial Assets*
- FASB Staff Positions issued through September 30, 2008
- FASB Emerging Issues Task Force consensus ratified by FASB through September 30, 2008
- Statement of Position (SOP) 07-1, *Clarification of the Scope of the Audit and Accounting Guide* Investment Companies *and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies* (AICPA, *Technical Practice Aids*, ACC sec. 10,930)
- Practice Bulletin No. 15, *Accounting by the Issuer of Surplus Notes* (AICPA, *Technical Practice Aids*, PB sec. 12,150)
- Statement on Auditing Standards No. 114, *The Auditor's Communication With Those Charged With Governance* (AICPA, *Professional Standards*, vol. 1, AU sec. 380)
- Auditing Interpretation No. 3, "Financial Statements Audited in Accordance With International Standards on Auditing," of AU section 534, *Reporting on Financial Statements Prepared for Use in Other Countries* (AICPA, *Professional Standards*, vol. 1, AU sec. 9534 par. .09–.11)

(*continued*)

- SOP 07-2, *Attestation Engagements That Address Specified Compliance Control Objectives and Related Controls at Entities That Provide Services to Investment Companies, Investment Advisers, or Other Service Providers* (AICPA, *Technical Practice Aids*, AUD sec. 14,430)
- Statement on Standards for Accounting and Review Services No. 17, *Omnibus Statement on Standards to Accounting and Review Services—2008* (AICPA, *Professional Standards*, vol. 2)
- Statement on Standards for Attestation Engagements No. 14, *SSAE Hierarchy* (AICPA, *Professional Standards*, vol. 1, AT sec. 50)
- Accounting and Review Services Interpretation No. 30, "Considerations Related to Financial Statements Prepared in Accordance With International Financial Reporting Standards and Compilations and Reviews Performed in Accordance With International Standards," of AR section 100, *Compilation and Review of Financial Statements* (AICPA, *Professional Standards*, vol. 2, AR sec. 9100 par. .130–.135)
- Public Company Accounting Oversight Board Auditing Standard No. 5, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements* (AICPA, *PCAOB Standards and Related Rules*, Rules of the Board, "Standards")

The checklist and illustrative financial statements should be modified, as appropriate, for subsequent pronouncements. In determining the applicability of a pronouncement, its effective date should also be considered.

Instructions

.03 The checklists consist of a number of questions or statements that are accompanied by references to the applicable authoritative pronouncements. The checklists provide spaces for checking off or initialing each question or point to show that it has been considered. Users should check or initial—

- *Yes*—If the disclosure is appropriately made.
- *No*—If the disclosure has not been made.
- *N/A* (Not Applicable)—If the disclosure is not applicable to the organization.

It is important that the effect of any "No" response be considered by the accountant or auditor on their respective report. For audited financial statements, a "No" response that is material to the financial statements may warrant a departure from an unqualified opinion as discussed in paragraphs .20–.64 of AU section 508, *Reports on Audited Financial Statements* (AICPA, *Professional Standards*, vol. 1). If a "No" answer is indicated, the authors recommend that a note be made in the right margin to explain why the disclosure was not made (for example, if the disclosure was not made because it was not material to the financial statements, write "not material" in the right margin).

.04 Users may find it helpful to use the right margin for certain other remarks and comments as appropriate, including the following:

a. For each disclosure for which a "Yes" is indicated, a notation as to where the disclosure is located in the financial statements and a cross-reference to the applicable workpapers where the support to a disclosure may be found.

b. For items marked as "N/A," the reasons for which they do not apply in the circumstances of the particular report.

c. For each disclosure for which a "No" response is indicated, a notation as to why the disclosure was not made (for example, because the item was not considered to be material to the financial statements).

.05 The use of these or any other checklists requires the exercise of individual professional judgment and may likely require some modification based on the circumstances of individual engagements. These checklists are not substitutes for the authoritative pronouncements. Users of the checklists and illustrative financial statements are urged to refer directly to applicable authoritative pronouncements when appropriate. The checklists and illustrative financial statements do not include all disclosures and presentation items promulgated, nor do they represent minimum requirements. Pronouncements deemed remote for real estate ventures are not included in this document. Additionally, users of the checklists and illustrative financial statements are encouraged to tailor them as necessary to meet specific circumstances of each particular engagement. As an additional resource, users may call the AICPA Technical Hotline at 1-877-242-7212.

.06 These checklists and illustrative financial statements have been prepared by the AICPA staff. They have not been reviewed, approved, disapproved, or otherwise acted on by any senior technical committee of the AICPA and do not represent official positions or pronouncements of the AICPA.

FSP Section 19,200

Financial Statements and Notes Checklist

.01 This checklist has been developed by the staff of the Accounting and Auditing Publications Team of the AICPA as a nonauthoritative practice aid and is to be used in conjunction with the *Checklists and Illustrative Financial Statements for Corporations*.

.02 Explanation of References:

ACC =	Reference to section number in AICPA *Technical Practice Aids*, Statements of Position—Accounting
APB =	Accounting Principles Board Opinion
ARB =	Accounting Research Bulletin
EITF =	FASB Emerging Issues Task Force Consensus
FIN =	FASB Interpretation No.
FSP =	FASB Staff Position
PB =	Reference to section number in AICPA *Technical Practice Aids*, Practice Bulletins
SFAS =	FASB Statement of Financial Accounting Standards
SOP =	Statement of Position

.03 The accounting and reporting for real estate time-sharing transactions is addressed by SOP 04-2, *Accounting for Real Estate Time-Sharing Transactions* (AICPA, *Technical Practice Aids*, ACC sec. 10,910). The *Checklists and Illustrative Financial Statements for Corporations* includes the disclosure and presentation requirements of SOP 04-2. As this checklist is to be used in conjunction with the *Checklists and Illustrative Financial Statements for Corporations* refer to that checklist for disclosure and presentation requirements related to real estate time-sharing transactions.

.04 Checklist Questionnaire:

This financial statement disclosure checklist is organized into sections. Carefully review the topics listed and consider whether they represent potential disclosure items for the real estate venture for which you are preparing or auditing financial statements. Place a check mark by the topics or sections that are applicable and complete those sections of the checklist. Other sections may be marked "N/A" or left blank. For example, if the real estate venture had a change in accounting principle, place a check mark by the section "Accounting Changes" and complete that section of the checklist. On the other hand, if the contractor did not have a change in accounting principle, do not place a check mark by "Accounting Changes" and skip that section when completing the checklist.

	Place ✔ by Sections Applicable
• General	
A. Disclosure of Accounting Policies	_________
B. Accounting Changes	_________
C. Commitments and Contingencies	_________
D. Other Matters	_________

	Place ✔ by Sections Applicable
E. Limited Liability Companies and Partnerships	______
• Balance	
A. General	______
B. Receivables	______
C. Properties	______
• Income Statements	
A. General	______

	Yes	*No*	*N/A*

General

A. Disclosure of Accounting Policies

	Yes	No	N/A
1. Is the method of reporting investments in joint ventures disclosed? [APB 22 par. 12–13]	____	____	____
2. Is the consolidation policy disclosed? [ARB 51 par. 5; APB 22 par. 12–13]	____	____	____
3. Is treatment of the following items considered for disclosure:			
a. Preacquisition costs?	____	____	____
b. Property taxes and insurance?	____	____	____
c. Project costs (including indirect costs)?	____	____	____
d. Amenities?	____	____	____
e. Incremental revenue from incidental operations? [SFAS 67 par. 4–10, as amended by SFAS 157]	____	____	____
4. Is the method of allocating capitalized costs to components of real estate projects considered for disclosure? [SFAS 67 par. 11]	____	____	____
5. Disclosure of method of revenue recognition:			
a. Is a description provided of the accounting principles followed and the method of applying those principles?	____	____	____

Notes: EITF 06-8, "Applicability of the Assessment of a Buyer's Continuing Investment under SFAS 66, *Accounting for Sales of Real Estate*, for Sales of Condominiums," provides guidance on how entities should assess the collectibility of sales price in paragraph 37(d) of SFAS 66, which is one of the 5 criteria required to be met for profit to be recognized by the percentage-of-completion method on the sale of individual units or interests in condominium projects. EITF 06-8 provides that an entity should evaluate the adequacy of the buyer's continuing investment pursuant to paragraph 12 of SFAS 66 to recognize profit under the percentage-of-completion method. The EITF also provides that the initial and continuing investments tests (described in paragraphs 8–12 of SFAS 66) should be applied prospectively from the

(*continued*)

Yes No N/A

reassessment date. Therefore, on a reassessment date, an entity should reassess all of the criteria in paragraph 37 of SFAS 66 to determine whether profit should be recognized under the percentage-of-completion method.

Entities that have not accounted for sales of condominiums in a manner that is consistent with the consensus in this EITF should recognize the effect of the consensus as a change in accounting principle through a cumulative-effect adjustment to retained earnings or to other components of equity or net assets in the statement of financial position at the beginning of the year of adoption. Entities should disclose the cumulative effect of the change on retained earnings or on other components of equity or net assets in the statement of financial position.

b. If the percentage-of-completion method is used for condominium projects or time-sharing interests, are the minimum requirements for units sold and project costs incurred before profit is recognized considered for disclosure? ____ ____ ____
[APB 22 par. 12; SFAS 66 par. 37; EITF 06-8]

c. If a buy-sell clause is included in any agreements within the scope of SFAS 66, have all relevant facts and circumstances of the transaction at the time the real estate is sold been considered before applying partial sales treatment? ____ ____ ____
[EITF 07-6]

Notes: EITF 07-6, "Accounting for the Sale of Real Estate Subject to the Requirements of SFAS 66, *Accounting for Sales of Real Estate*, When the Agreement Includes a Buy-Sell Clause," is effective for new arrangements entered into and assessments performed in fiscal years beginning after December 15, 2007, and interim periods within those fiscal years. Earlier application is not permitted.

EITF 07-6 applies to a real estate transaction subject to the requirements of SFAS 66 when the transaction includes a buy-sell clause. Determining whether the terms of the buy-sell clause indicate that the seller has transferred the usual risks and rewards of ownership and does not have substantial continuing involvement pursuant to paragraph 26 of SFAS 66 is a matter of judgment, and requires consideration of all relevant facts and circumstances of the transaction at the time the real estate is sold. A buy-sell clause, in and of itself, does not constitute a prohibited form of continuing involvement that would preclude partial sales treatment under SFAS 66.

6. Is income segmented appropriately by activity, that is, sales of subdivided land, rentals from operating properties, by geography, or legal entity, for example? ____ ____ ____
[SFAS 131 par. 4]

B. Accounting Changes

1. In addition to the required disclosures for changes in accounting in the *Checklists and Illustrative Financial Statements for Corporations*, (under the section "Accounting Changes and Error Corrections"), have the following disclosures been considered:

	Yes	No	N/A
a. Are significant revisions in estimates of the percentage-of-completion disclosed, if the effects are material? [SFAS 154 par. 22]	____	____	____
b. If a retail land sale that has been accounted for by the installment method subsequently qualifies and is accounted for by the percentage-of-completion method, is the effect accounted for as a change in accounting estimate and is the effect on income from continuing operations, net income (or other appropriate captions of changes in the applicable net assets or performance indicator), and related per-share amounts of the current period disclosed? [SFAS 154 par. 22; SFAS 66 par. 49]	____	____	____
c. If a sale, other than a retail land sale, which is accounted for using the installment or cost recovery methods, subsequently qualifies and is changed to the full accrual method, is this change disclosed? [APB 22 par. 12; SFAS 66 par. 61 and 64]	____	____	____
d. If the sale of individual units in a condominium project were not accounted for in accordance with EITF 06-8, but now are due to adoption of EITF 06-8, is the effect accounted for as a change in accounting principle through a cumulative-effect adjustment to retained earnings or to other components of equity or net assets in the statement of financial position at the beginning of the year of adoption and is the cumulative effect of the change disclosed in the statement of financial position?	____	____	____
Investments in Real Estate Ventures			
1. Upon the application of **Transition Method A** of FSP SOP 78-9-1, does the entity disclose in the year of adoption the effect on the opening balance sheet of adopting the new accounting principle? [FSP SOP 78-9-1 par. 8]	____	____	____
2. Upon the application of **Transition Method B** of FSP SOP 78-9-1, if the entity applies the guidance in FSP SOP 78-9-1 through retrospective application, does it apply the guidance in paragraphs 7–8 and 10 of SFAS 154, *Accounting Changes and Error Corrections*, and the disclosures required by paragraph 17 of SFAS 154? [FSP SOP 78-9-1 par. 10]	____	____	____
C. Commitments and Contingencies			
1. In addition to the required disclosures for commitments and contingencies in the *Checklists and Illustrative Financial Statements for Corporations*, (under the section "Commitments and Contingencies"), have the following disclosures been considered:			
a. Are the following disclosures regarding improvements for retail land sales operations made:			
(1) Estimated total costs and estimated dates of expenditures for improvements for major areas from which sales are being made over each of the five years following the date of the financial statements?	____	____	____
(2) Recorded obligations for improvements? [SFAS 66 par. 50]	____	____	____

	Yes	No	N/A
b. Are other significant commitments disclosed, such as commitments to purchase or construct real estate or provide financing to affiliates? [SFAS 5 par. 18–19]	____	____	____

D. Other Matters

1. If the installment method of profit recognition is used, are the following items disclosed:

	Yes	No	N/A
a. The sales value, unrecognized gross profit, and total cost of the sale in the income statement or notes for the period including the date of sale?	____	____	____
b. The revenue and cost of sales presented as separate items in the income statement or notes when profit is recognized as earned? [SFAS 66 par. 59]	____	____	____

2. If the cost recovery method of profit recognition is used:

	Yes	No	N/A
a. Is the sales value, unrecognized gross profit, and total cost of the sale presented in the income statement for the period including the date of sale?	____	____	____
b. Is the unrecognized gross profit offset against the related receivable on the balance sheet?	____	____	____
c. Is the gross profit presented as a separate item of revenue on the income statement, when it is recognized as earned? [SFAS 66 par. 63]	____	____	____
3. If the deposit method of profit recognition is used, is disclosure made that the property and related existing debt are subject to a sales contract? [SFAS 66 par. 65, as amended by SFAS 144]	____	____	____
4. If the REIT has the ability to exercise at least significant influence on a service corporation as per EITF 95-6, and this results in a change in the method of accounting, are the financial statements issued by the REIT restated? (If the service corporation is a variable interest entity as described in FIN 46(R), it is subject to the requirements of FIN 46(R), and then the consensus in EITF 95-6 does not apply.) [EITF 95-6; FIN 46(R)]	____	____	____

E. Limited Liability Companies and Partnerships

1. If the real estate venture is organized as a limited liability company or a limited liability partnership:

	Yes	No	N/A
a. Has a description of any limitation of a member's liability been disclosed?	____	____	____
b. Have the different classes of members' interests and the respective rights, preferences, and privileges of each class been disclosed?	____	____	____
c. As discussed in paragraph .10 of PB 12,140 if the limited liability company or limited liability partnership does not report separately the amount of each class in the equity section of the statement of financial position, have those amounts been disclosed in the notes?	____	____	____
d. If the limited liability company or limited liability partnership has a finite life, has the date the entity will cease to exist been disclosed?	____	____	____

	Yes	No	N/A

e. If the limited liability company or limited liability partnership was formed by combining entities under common control or by conversion from another type of entity, do the notes to the financial statements for the year of formation disclose that the assets and liabilities were previously held by a predecessor entity or entities? ____ ____ ____
[PB 12,140.15–.16]

2. If the real estate venture is organized as a limited liability company or a limited liability partnership have the financial statement display issues in paragraphs .08–.14 of PB 12,140, *Accounting and Reporting by Limited Liability Companies and Limited Liability Partnerships* (AICPA, *Technical Practice Aids*) been considered? ____ ____ ____
[PB 12,140.08–.14]

Balance Sheet

A. General

1. Is an unclassified balance sheet considered where it is not possible to clearly define the operating cycle and classification of current assets and liabilities on the basis of the one-year rule in ARB 43 chapter 3A paragraph 5? ____ ____ ____
[Generally Accepted]

2. Are real estate assets grouped in a manner that discloses the company's operations (the following are examples of classifications to consider):

a. Unimproved land? ____ ____ ____

b. Land under development? ____ ____ ____

c. Residential lots? ____ ____ ____

d. Condominiums? ____ ____ ____

e. Single-family dwellings? ____ ____ ____

f. Rental properties? ____ ____ ____

g. Commercial and industrial properties? ____ ____ ____
[Generally Accepted]

B. Receivables

1. Are the following disclosures regarding accounts receivable of enterprises with retail land sales operations disclosed:

a. Maturities of accounts receivable for each of the five years following the date of the financial statements? ____ ____ ____

b. Delinquent accounts receivable and the method(s) for determining delinquency? ____ ____ ____

c. The weighted average and range of stated interest rates of receivables? ____ ____ ____
[SFAS 66 par. 50]

2. Noncurrent receivables:

a. If entity has impaired loans receivable has proper disclosure been made on a loan by loan basis? ____ ____ ____
[EITF 96-22]

	Yes	No	N/A
C. Properties			
1. Is the method of determining net realizable value considered for disclosure? [Generally Accepted]	____	____	____

Income Statement

	Yes	No	N/A
A. General			
1. Are revenue and cost of operations classified by principal type of activity (the following are examples of classifications to consider):			
a. Unimproved land?	____	____	____
b. Land under development?	____	____	____
c. Residential lots?	____	____	____
d. Condominiums?	____	____	____
e. Single-family dwellings?	____	____	____
f. Rental properties?	____	____	____
g. Commercial and industrial properties? [Generally Accepted]	____	____	____
2. Has consideration been given to disclosing lessee's risks for construction in excess of agreed upon fees where an effective sale has not been recognized? [EITF 97-10]	____	____	____
3. When rental costs incurred during and after a construction period are for the right to control the use of a leased asset during and after construction of a lessee asset, are the rental costs included in income from continuing operations? [FSP FAS 13-1 par. 6]	____	____	____

FSP Section 19,300

Illustrative Financial Statements and Auditor's Reports[1]

.01 The illustrative financial statements have been presented in two different formats. The second format includes current value information. Practitioners may find this additional information useful as guidance in appropriate circumstances. The sample financial statements are included for illustrative purposes only and are not intended to establish reporting requirements. Furthermore, the dollar amounts shown are illustrative only and are not intended to indicate any customary relationship among accounts. The sample financial statements do not include all of the accounts and transactions that might be found in practice. The notes indicate the subject matter generally required to be disclosed, but they should be expanded, reduced, or modified to suit individual circumstances or materiality considerations. The illustrative statements are not intended to illustrate all disclosures required by generally accepted accounting principles or all of the disclosures covered in the financial statement checklist.

Example 1: Format Without Current Value Information

.02 Independent Auditor's Report

To the Management of Real Estate Joint Venture Company:

We have audited the accompanying balance sheets of Real Estate Joint Venture Company as of December 31, 20X1 and 20X0, and the related statements of income and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America.[*] Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. [*Optional: An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal controls over financial*

[1] The Sarbanes-Oxley Act of 2002 authorizes the Public Company Accounting Oversight Board (PCAOB) to establish auditing and related attestation, quality control, ethics, and independence standards to be used by registered public accounting firms in the preparation and issuance of audit reports for entities subject to the act or the rules of the Securities and Exchange Commission (SEC). Accordingly, public accounting firms registered with the PCAOB are required to adhere to all PCAOB standards in the audits of *issuers*, as defined by the Sarbanes-Oxley Act, and other entities when prescribed by the rules of the SEC.

For those entities not subject to the Sarbanes-Oxley Act or the rules of the SEC, the preparation and issuance of audit reports remain governed by generally accepted auditing standards as issued by the Auditing Standards Board (ASB).

[*] For audits of issuers, as defined by the Sarbanes-Oxley Act, and other entities when prescribed by the rules of the SEC (collectively referred to as *issuers*), PCAOB Auditing Standard No. 1, *References in Auditors' Reports to the Standards of the Public Company Accounting Oversight Board* (AICPA, *PCAOB Standards and Related Rules*, Rules of the Board), replaces this sentence with the following sentence: "We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States)." In June 2004, the ASB issued two auditing interpretations of AU section 508, *Reports on Audited Financial Statements* (AICPA, *Professional Standards*, vol. 1), which provide reporting guidance for audits of nonissuers. Interpretation No. 17, "Clarification in the Audit Report of the Extent of Testing of Internal Control Over Financial Reporting in Accordance With Generally Accepted Auditing Standards," of AU section 508 (AICPA, *Professional Standards*, vol. 1, AU sec. 9508 par. .85–.88), addresses how auditors may expand their independent auditing report to explain that their testing was sufficient to test the procedures of internal control over financial reporting, but not the effectiveness of the internal control. Interpretation No. 18, "Reference to PCAOB Standards in an Audit Report of a Nonissuer," of AU section 508 (AICPA, *Professional Standards*, vol. 1, AU sec. 9508 par. .89–.92), provides guidance on the appropriate referencing of PCAOB standards in auditing reports for those auditors who choose to follow PCAOB standards when auditing nonissuers. The ASB also has undertaken a project to determine what amendments, if any, should be made to AU section 508.

reporting. Accordingly, we express no such opinion.][2] An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Real Estate Joint Venture Company as of December 31, 20X1 and 20X0, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

[*Firm Signature*]

Certified Public Accountants

[*City, State*]

[*Date*]

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[2] This optional wording may be added in accordance with Interpretation No. 17, which provides reporting guidance for audits of nonissuers. Interpretation No. 17 addresses how auditors may expand their independent audit report to explain that their consideration of internal control was sufficient to provide the auditor sufficient understanding to plan the audit and determine the nature, timing, and extent of tests to be performed, but was not sufficient to express an opinion on the effectiveness of the internal control. If this optional language is added then the remainder of the paragraph should read as follows:

> An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The checklists and illustrative financial statements do not include all disclosures and presentation items promulgated.

.03

REAL ESTATE JOINT VENTURE COMPANY

Balance Sheets

December 31, 20X1 and 20X0

	December 31, 20X1	*December 31, 20X0*
Assets		
Property:		
Operating	$ 5,300,000	$ 4,700,000
Less: accumulated depreciation	(2,320,000)	(2,200,000)
Net	2,980,000	2,500,000
Properties held for sale	1,200,000	1,150,000
Properties held for development	500,000	400,000
Land	250,000	250,000
Total Property	4,930,000	4,300,000
Cash and cash equivalents	425,000	318,000
Marketable securities	225,000	225,000
Notes receivable	350,000	260,000
	$ 5,930,000	$ 5,103,000
Liabilities and Capital		
Current maturities of long-term debt (note 3)	$ 550,000	$ 550,000
Accounts payable	220,000	220,000
Accrued expenses and other liabilities	140,000	140,000
Mortgage loans (note 3)	5,500,000	4,500,000
Construction loans (note 3)	320,000	150,000
Land loans (note 3)	125,000	125,000
Total liabilities	6,855,000	5,685,000
Capital (Deficit)		
ABC Company	(291,000)	(289,700)
XYZ Company	(291,000)	(289,700)
	(582,000)	(579,400)
Loss	(158,800)	(2,600)
Partnership Distributions	(184,200)	—
Total (Deficit)	(925,000)	(582,000)
	$ 5,930,000	$ 5,103,000

The accompanying notes are an integral part of the financial statements.

.04

REAL ESTATE JOINT VENTURE COMPANY

Statements of Income

Years Ended December 31, 20X1 and 20X0

	December 31, 20X1	*December 31, 20X0*
Net rental income	$ 714,000	$ 660,000
Interest income	45,200	32,400
Total revenue	759,200	692,400
Operating expenses	(340,000)	(238,000)
Interest expense	(458,000)	(357,000)
Depreciation and amortization	(120,000)	(100,000)
Total expenses	(918,000)	(695,000)
Net income	$(158,800)	$ (2,600)

The accompanying notes are an integral part of the financial statements.

.05

REAL ESTATE JOINT VENTURE COMPANY

Statements of Cash Flows

Years Ended December 31, 20X1 and 20X0

	Year Ended December 31, 20X1	*Year Ended December 31, 20X0*
Cash flows from operating activities:		
Cash received from rentals	$ 714,000	$ 671,000
Cash paid for operations	(340,000)	(246,000)
Purchase of operating properties	(600,000)	(400,000)
Purchase of properties held for sale	(50,000)	—
Purchase of properties held for development	(100,000)	—
	(376,000)	25,000
Cash flows from investing activities:		
Interest income	45,200	32,400
Cash flows from financing activities:		
Borrowings	1,170,000	—
Interest payments	(458,000)	(350,000)
Distribution to partners	(184,200)	—
Receipt of note	(90,000)	—
	437,800	(350,000)
Net increase in cash and cash equivalents	107,000	(292,600)
Cash and cash equivalents at beginning of year	318,000	610,600
Cash and cash equivalents at end of year	$ 425,000	$ 318,000
Reconciliation of net income to net cash provided by operating activities:		
Net income	$(158,800)	$ (2,600)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	120,000	100,000
Purchase of properties	(750,000)	(400,000)
Interest expense	458,000	357,000
Interest income	(45,200)	(32,400)
Net change in receivables and payables	—	3,000
Net cash provided by operating activities	$(376,000)	$ 25,000

The accompanying notes are an integral part of the financial statements.

.06

REAL ESTATE JOINT VENTURE COMPANY

Notes to the Financial Statements

December 31, 20X1 and 20X0

Note 1: The Company

In 20X0, the ABC Company entered into a joint venture agreement with XYZ Company to form the Real Estate Joint Venture Company (joint venture). The joint venture was formed to acquire land for development, develop said land for residential and commercial uses and to operate and sell individual properties.

Note 2: Significant Accounting Policies

(*a*) Sales of Property

Gains from sales are recognized when numerous criteria relating to the sale are met. If sales are made that do not meet said criteria, sales are not recognized until criteria are met using the installment or cost recovery methods as appropriate under the circumstances.

(*b*) Depreciation

Depreciation is recorded for all operating properties over a forty year term.

(*c*) Income Taxes

The joint venture pays no income taxes and is taxed as a partnership under provisions of the IRC. Individual participants include their distributive share of profits and losses on their own taxable entities.

(*d*) Cash and Cash Equivalents

The Company considers all short-term investments with an original maturity of three months or less to be cash equivalents.

Note 3: Loans Payable

Mortgage, construction, and land loans payable as of December 31, 20X1, consist of the following:

	Interest Rate	*Total*	*20X2*	*20X3*	*20X4*	*20X5*	*20X6 or later*
Mortgage	7–9%	$6,050,000	$550,000	$550,000	$550,000	$550,000	$3,850,000
Construction	Floating 3% over prime	320,000	320,000				
Land	12%	125,000	125,000				
		$6,495,000	$995,000	$550,000	$550,000	$550,000	$3,850,000

Note 4: Commitments

As of December 31, 20X1, the joint venture had remaining commitments of approximately $400,000 on construction contracts and was contingently liable for approximately $75,000 of notes discounted with banks.

Note 5: Contingencies

There are claims and actions pending against the joint venture. In the opinion of management, the amounts, if any, that may be awarded for those claims and actions would not be material to the Company's financial position.

Example 2: Format With Current Value Information

.07

Independent Auditor's Report

We have audited the accompanying historical cost-balance sheets of Real Estate Joint Venture Company as of December 31, 20X1 and 20X0 and the related historical-cost statements of income and cash flows for each of the years ended December 31, 20X1 and 20X0. We also have audited the supplemental current-value balance sheets of Real Estate Joint Venture Company as of December 31, 20X1 and 20X0. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. [*Optional: An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal controls over financial reporting. Accordingly, we express no such opinion.*][3] An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the historical-cost financial statements referred to above present fairly, in all material respects, the financial position of Real Estate Joint Venture Company as of December 31, 20X1 and 20X0, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in note 3, the supplemental current-value financial statements have been prepared by management to present relevant financial information that is not provided by the historical-cost financial statements and are not intended to be a presentation in conformity with generally accepted accounting principles. In addition, the supplemental current-value financial statements do not purport to present the net realizable, liquidation, or market value of the Company as a whole. Furthermore, amounts ultimately realized by the Company from the disposal of properties may vary significantly from the current values presented.

In our opinion, the supplemental current-value financial statements referred to above present fairly, in all material respects, the information set forth in them on the basis of accounting described in note 3.

[*Firm Signature*]

Certified Public Accountants

[*City, State*]

[*Date*]

[3] See footnote 2.

.08

REAL ESTATE JOINT VENTURE COMPANY

Balance Sheets

December 31, 20X1 and 20X0

	20X1 Cost Basis	*20X0 Cost Basis*	*20X1 Current Value*	*20X0 Current Value*
Assets				
Property:				
Operating	$ 5,300,000	$ 4,700,000	$ 7,200,000	$ 6,600,000
Less: accumulated depreciation	(2,320,000)	(2,200,000)		
Net	2,980,000	2,500,000	7,200,000	6,600,000
Properties held for sale	1,200,000	1,150,000	1,300,000	1,250,000
Properties held for development	500,000	400,000	500,000	400,000
Land	250,000	250,000	250,000	250,000
Total property	4,930,000	4,300,000	9,250,000	8,500,000
Cash and cash equivalents	425,000	318,000	425,000	318,000
Marketable securities	225,000	225,000	225,000	225,000
Notes receivable	350,000	260,000	350,000	260,000
Total	$ 5,930,000	$ 5,103,000	$ 10,250,000	$ 9,303,000
Liabilities and Capital				
Current maturities of long-term debt (note 4)	$ 550,000	$ 550,000	$ 550,000	$ 550,000
Accounts payable	220,000	220,000	220,000	220,000
Accrued expenses and other liabilities	140,000	140,000	140,000	140,000
Mortgage loans (note 4)	5,500,000	4,500,000	5,500,000	4,500,000
Construction loans (note 4)	320,000	150,000	320,000	150,000
Land loans (note 4)	125,000	125,000	125,000	125,000
Total loans	6,855,000	5,685,000	6,855,000	5,685,000
Capital, (Deficit)				
ABC Company	(291,000)	(289,700)	(291,000)	(289,700)
XYZ Company	(291,000)	(289,700)	(291,000)	(289,700)
	(582,000)	(579,400)	(582,000)	(579,400)
Gain (loss)	(158,000)	(2,600)	(158,000)	(2,600)
Partnership distributions	(185,000)	—	(185,000)	—
Revaluation equity			4,320,000	4,200,000
Total	(925,000)	(582,000)	3,395,000	3,618,000
	$ 5,930,000	$ 5,103,000	$ 10,250,000	$ 9,303,000

The accompanying notes are an integral part of the financial statements.

.09

REAL ESTATE JOINT VENTURE COMPANY

Statements of Income

Years Ended December 31, 20X1 and 20X0

	December 31, 20X1	*December 31, 20X0*
Net rental income	$ 714,000	$ 660,000
Interest income	45,200	32,400
Total revenue	759,200	692,400
Operating expenses	(340,000)	(238,000)
Interest expense	(458,000)	(357,000)
Depreciation and amortization	(120,000)	(100,000)
Total expenses	(918,000)	(695,000)
Net income	$(158,800)	$ (2,600)

The accompanying notes are an integral part of the financial statements.

.10

REAL ESTATE JOINT VENTURE COMPANY

Statements of Cash Flows

Years Ended December 31, 20X1 and 20X0

	Year Ended December 31, 20X1	*Year Ended December 31, 20X0*
Cash flows from operating activities:		
Cash received from rentals	$ 714,000	$ 671,000
Cash paid for operations	(340,000)	(246,000)
Purchase of operating properties	(600,000)	(400,000)
Purchase of properties held for sale	(50,000)	—
Purchase of properties held for development	(100,000)	—
	(376,000)	25,000
Cash flows from investing activities:		
Interest income	45,200	32,400
Cash flows from financing activities:		
Borrowings	1,170,000	—
Interest payments	(458,000)	(350,000)
Distribution to partners	(184,200)	—
Receipt of note	(90,000)	—
	437,800	(350,000)
Net increase in cash and cash equivalents	107,000	(292,600)
Cash and cash equivalents at beginning of year	318,000	610,600
Cash and cash equivalents at end of year	$ 425,000	$ 318,000
Reconciliation of net income to net cash provided by operating activities:		
Net income	$(158,800)	$ (2,600)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	120,000	100,000
Purchase of properties	(750,000)	(400,000)
Interest expense	458,000	357,000
Interest income	(45,200)	(32,400)
Net change in receivables and payables	—	3,000
Net cash provided by operating activities	$ (376,000)	$ 25,000

The accompanying notes are an integral part of the financial statements.

.11

REAL ESTATE JOINT VENTURE COMPANY

Notes to the Financial Statements

December 31, 20X1 and 20X0

Note 1: The Company

In 20X0, the ABC Company entered into a joint venture agreement with XYZ Company to form the Real Estate Joint Venture Company (joint venture). The joint venture was formed to acquire land for development, develop said land for residential and commercial uses and to operate and sell individual properties.

Note 2: Significant Accounting Policies

(*a*) Sales of Property

Gains from sales are recognized when numerous criteria relating to the sale are met. If sales are made that do not meet said criteria the result of sales, sales are not recognized until criteria are met using the installment or cost recovery methods as appropriate under the circumstances.

(*b*) Depreciation

Depreciation is recorded for all operating properties over a forty year term.

(*c*) Income Taxes

The joint venture pays no income taxes and is taxed as a partnership under provisions of the IRC. Individual participants include their distributive share of profits and losses on their own taxable entities.

(*d*) Cash and Cash Equivalents

The company considers all short-term investments with an original maturity of three months or less to be cash equivalents.

Note 3: Current Value Reporting

Management of the Company believes that properties have appreciated in value and therefore current value substantially exceeds cost basis. In estimating current values of the company's assets and liabilities estimates and judgments have been made, however, they are not subject to precise quantification or verification and may change over time due to economic factors.

Current values of operating properties have been determined by calculating the present value of future net cash flows factoring in an expected vacancy rate.

Current values of operating properties held for sale have been estimated based upon comparable sales, where available, negotiated contracts and other relevant data.

Current values of properties in development and raw land are carried at cost.

Revaluation Equity

The difference between cost and current values of assets is reported in the revaluation section of participant's equity. The components of revaluation are as follows:

	20X1	*20X0*
Value of interest in operating properties	$ 7,200,000	$ 6,600,000
Value of properties held for sale	1,300,000	1,250,000
Depreciated cost of properties	(4,180,000)	(3,650,000)
Total Revaluation Equity	$ 4,320,000	$ 4,200,000

Note 4: Loans Payable

Mortgage, construction, and land loans payable as of December 31, 20X1, consist of the following:

	Interest Rate	*Total*	*20X2*	*20X3*	*20X4*	*20X5*	*20X6 or later*
Mortgage	7–9%	$6,050,000	$550,000	$550,000	$550,000	$550,000	$3,850,000
Construction	Floating 3% over prime	320,000	320,000				
Land	12%	125,000	125,000				
		$6,495,000	$995,000	$550,000	$550,000	$550,000	$3,850,000

Note 5: Commitments

As of December 31, 20X1, the joint venture had remaining commitments of approximately $400,000 on construction contracts and was contingently liable for approximately $75,000 of notes discounted with banks.

Note 6: Contingencies

There are claims and actions pending against the joint venture. In the opinion of management, the amounts, if any, that may be awarded for those claims and actions would not be material to the Company's financial position.

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